



Denker Capital
Warren Buffett
15 April 2023

DENKER
CAPITAL

DISCOVERING OPPORTUNITIES.
BUILDING WEALTH.

The phenomenon of compounding and Warren Buffett

The Power of Compounding				
Value of \$1 mill invested in Berkshire Hathay when the Buffett partnership took control with Charlie aged 41				
	<u>Berkshire</u>	<u>US 10 year</u>	<u>S&P</u>	
age 41	1	1	1	
Age 61	36	2.2	4.6	
Age 91	8030	5.8	30.6	
Age 99	15416	6.4	58.6	
Age 101	18615	6.8	67.0	
<i>Compound return rate</i>	19.8%	4.0%	9.9%	

Bereken van Des1964 = 58 jaar hy verkry volle beheer in 1970

Differing from the herd is hard

Buffett was asked: "So everybody knows how you do it, and everybody knows it worked,
why do so few copy you?"

His answer: "Few people like getting rich slowly"

- Daar is soveel uiteenlopende gesprekspunte hier.....
 - Die persoon en lewe van Warren Buffett (92 jaar...)
 - Die maatskappy Berkshire Hathaway
 - Warren se beleggingsbeginsels
 - Wat is sy belggingsbeginsels / filosofie
 - Sy besigheidsbeginsels
 - Toepasbaarheid vandag
 - Hoe verskil dit van die aanvaarde praktyke...
 - Bespreking van kontensieuse sake waaroor Warren en Charlie sterk standpunte het
 - Direkteure, die rol van die staat itv armoede, tegnologiese verandering, ens
 - Beleggingsinsigte vir vandag

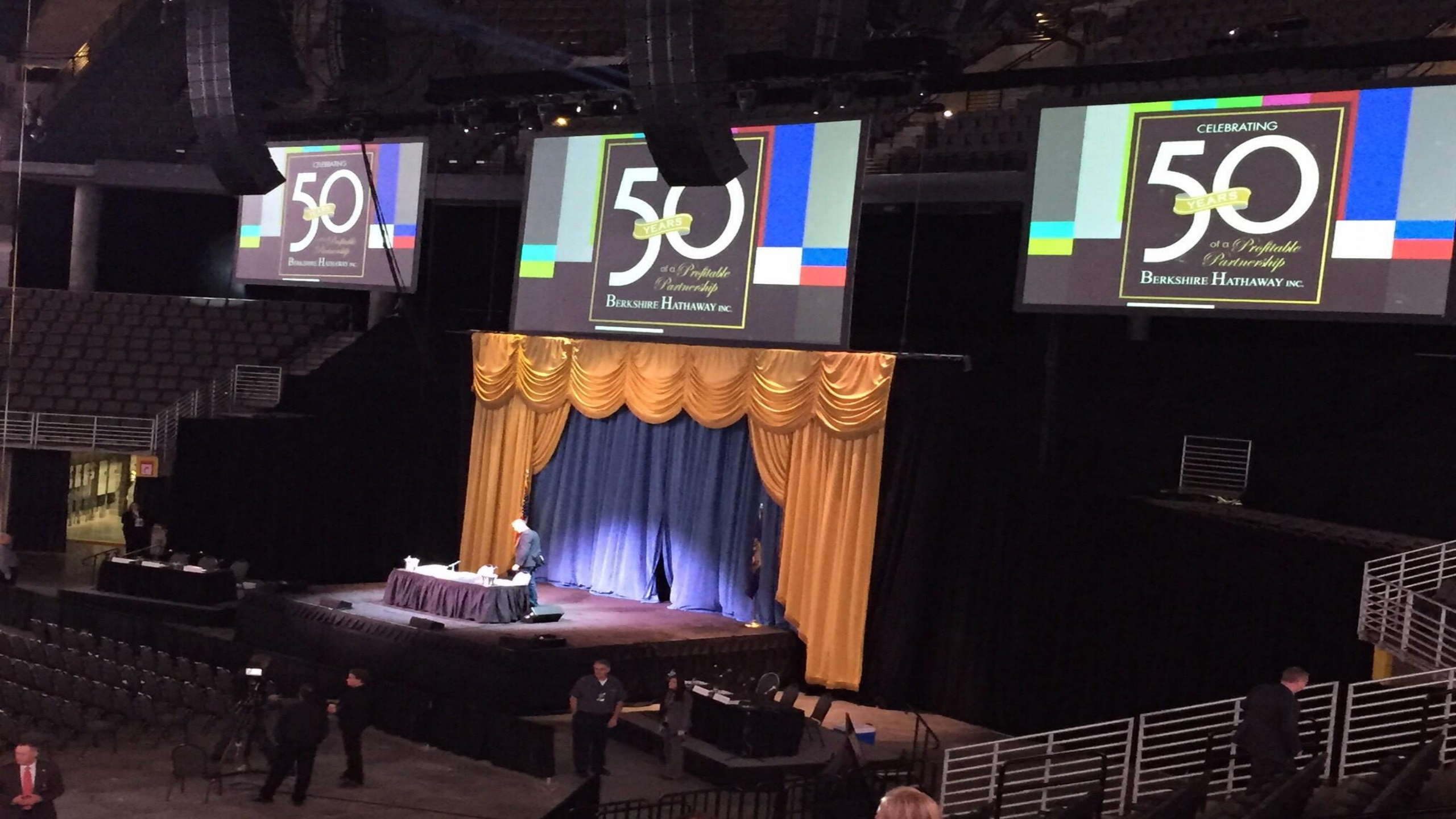
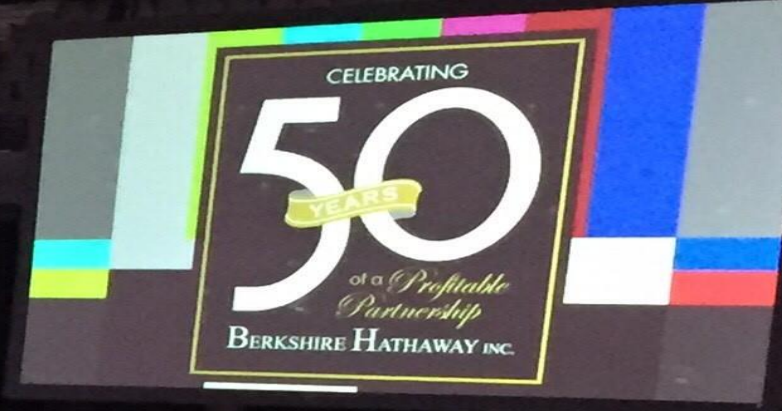
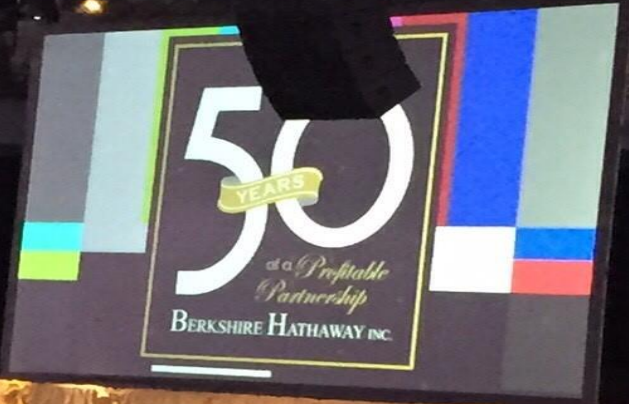
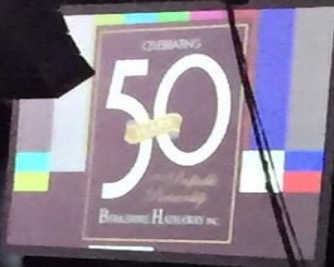
- Inleiding
- Waardes
- Oorsig van sy lewe
- “Events”
- Beleggingsfilosofie
- Berkshire Hathaway
- Vir moontlike bespreking later vanmiddag:
 Toepasbaarheid vandag / vir individue

Warren's house since 1958....



The annual shareholder feedback session has grown from its first one in 1973 attended by a handful of shareholders to to >45 000





Warren Buffett



Buffett in 2015

Born Warren Edward Buffett

August 30, 1930 (age 92)
Omaha, Nebraska, U.S.

Education University of Pennsylvania
University of Nebraska–Lincoln (BS)
Columbia University (MS)

Spouse(s) [Susan Thompson](#)

(m. 1952; died 2004)

[Astrid Menks](#)

(m. 2006)

Children [Susan Alice Buffett](#)
[Howard Graham Buffett](#)
[Peter Buffett](#)

Parent(s) [Howard Buffett](#)
[Leila Stahl](#)

- **Integrity**
- Intelligence/sharp insights
- **Belief in self - and backs his insights - consistently**
 - **Compounding and Patience**
- Clearly defined matrix of what works
- Identified his circle of competence and stays within it
- Impervious to group thinking
- Loyalty
- Totally at ease with himself – good sense of humour
- Ability to explain difficult concepts in short (witty) sentences
- Backs people – and then does not interfere
- Needs certainty/high resistance to change

Date of birth 30 Aug 1930

- Buys first shares age 11 March 1942
- Ben Graham – pioneer and father of security analysis
- Partnership (1956 -> 1969)
- American Express and the salad oil scandal (1963)
- Berkshire Hathaway (1965; becomes chairman 1970)
- 1959: Meets Charlie Munger – from value investor to quality (vice-chairman BH 1978)
 - The concept of intrinsic value > accounting value (Coke in 1988 – Coke and suit linings)
- 1990 - Salomon Bros needs to be rescued
- 1999/2000 Tech Bubble - Sun Valley speech
- 2008 crisis
- Partners with 3G to buy HJ Heinz (2013)
- Starts process of preparing for future without him and Charlie

- Aesop's blind date
- The value of certainty / a bird in the hand (Aesop) – blind date vs the girl next door
- The bipolar Mr Market Every now and then he presents you with a great opportunity
- If you become emotional you turn your advantage into a disadvantage

We're not smart....just sane



- Complicated models lead to multiplicative chains of unanticipated effect. Yet simplicity has been difficult to implement in modern life because it is against the spirit of a certain brand of people who seek sophistication so they can justify their profession (Naseem Taleb in Antifragile)
- In 1996 Charlie Munger was asked what kind of discounted cash flow model Warren uses to base decisions on.
 - “I’ve never seen Warren do one”
 - If a company’s value doesn’t just scream at you, its too close
 - Once deep calculations are needed you run down the path of confirming whatever you want to believe...”
 - *“you don’t need to know how much some-one weighs to know whether they are under or over weight”*

The Future

“I can assure you the event of my death will be far worse for me than for shareholders...”

- Berkshire Hathaway:
 - One of top 10 largest companies in the world: head office staff = 13.5
- Has conviction about what worksboard members are selected because of their understanding and interest in BH and because of their shareholding
- Board is male, white, avg age 80, own BH shares and are competent

Recent years:

- Pledges 99% of his shareholding,
- Makes Howard Buffett chairman (preserve culture)
- Appoints Ted and Tom
- Elevated Ajit Jain and Greg Abel to vice-chairmen

- Used the cash generated to buy/invest in:
 - **Businesses**
 - **Listed equities (now approx. 30% of Berkshire Hathaway)**
- From a failing Nebraska based textile mill to a top 5 US corporate with a large number of (now) widely recognised brands (Geico, Nebraska Furniture Mart, See's Candie, Brooks)
- Employs 383 000 people
- Market cap of \$472 bn

- Managements that are honest with themselves (and shareholders)
- Ethical, passionate about their business
- Growing client base
- Can sell their products at a premium price
- Generate cash

- Ito industry/company selection same as for listed equities
- Back management with track records – buy only if they stay on
- Give managements total **authority (not seek synergies, cost savings or cross-sell with other companies in the group)**
- Never get involved except ito allocation of cash generated (goes to head office)
- Buy businesses that can continue to re-invest the return generated
- BUT: he does take the cash flow generated to the centre...
- Small head office (13.5 people)
- Has a cash generative casualty insurer -the group derives benefit from the float
- No group incentive schemes
- Communicate with shareholders openly, but only once a year (*the investor who kept phoning*)
- Spend as much time as possible to read/learn and reflect

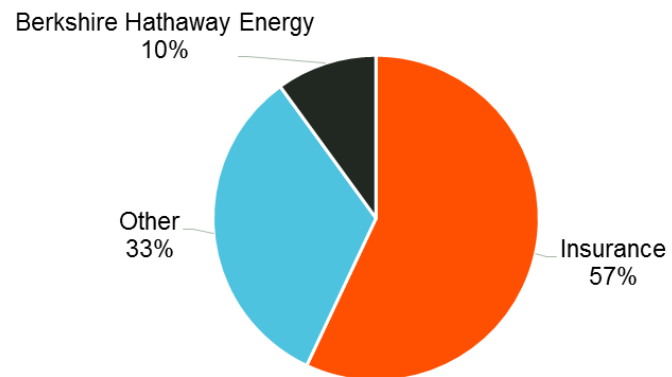
- Never buy businesses that need help from head office
- Preferably never sell any business acquired
- And try never to transfer a CEO from one business to another
- And never force a CEO to retire because of age
- Keep debt levels as low as possible
- Not force subsidiaries to use the BH system as per above
- **Avoid the cancer of bureaucracy**
- Appoint CEO's that have lots of time to think and stay as long as they are productive and committed
- **Trust and integrity**
 - An employee who scores high on work rate, passion and intelligence but low on integrity....
 - I've never done a good deal with a bad person...

Berkshire Hathaway

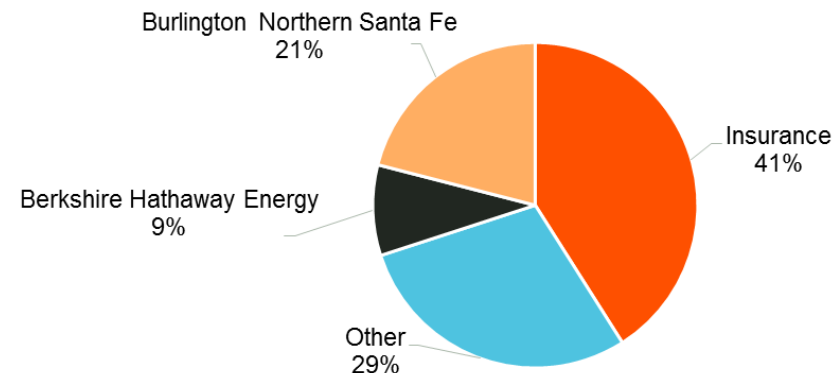
Pre-tax operating earnings operating earnings in 2006: \$14bn, 2022: \$31bn

Dramatic shift over the past 11 years

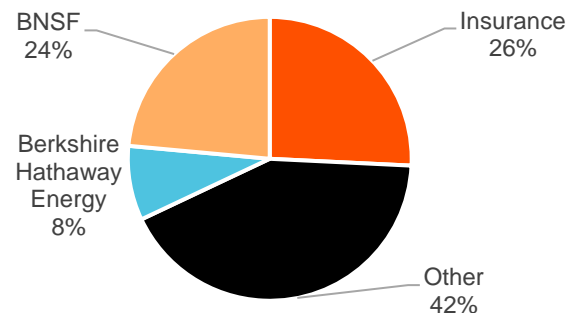
Total 2006 Pre-tax operating earnings \$14bn



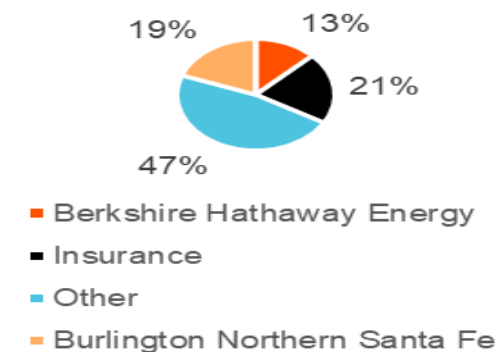
Total 2010 Pre-tax operating earnings \$17bn



Total 2018 Pre-tax operating earnings \$29bn



Total 2022 Operating Earnings \$31bn



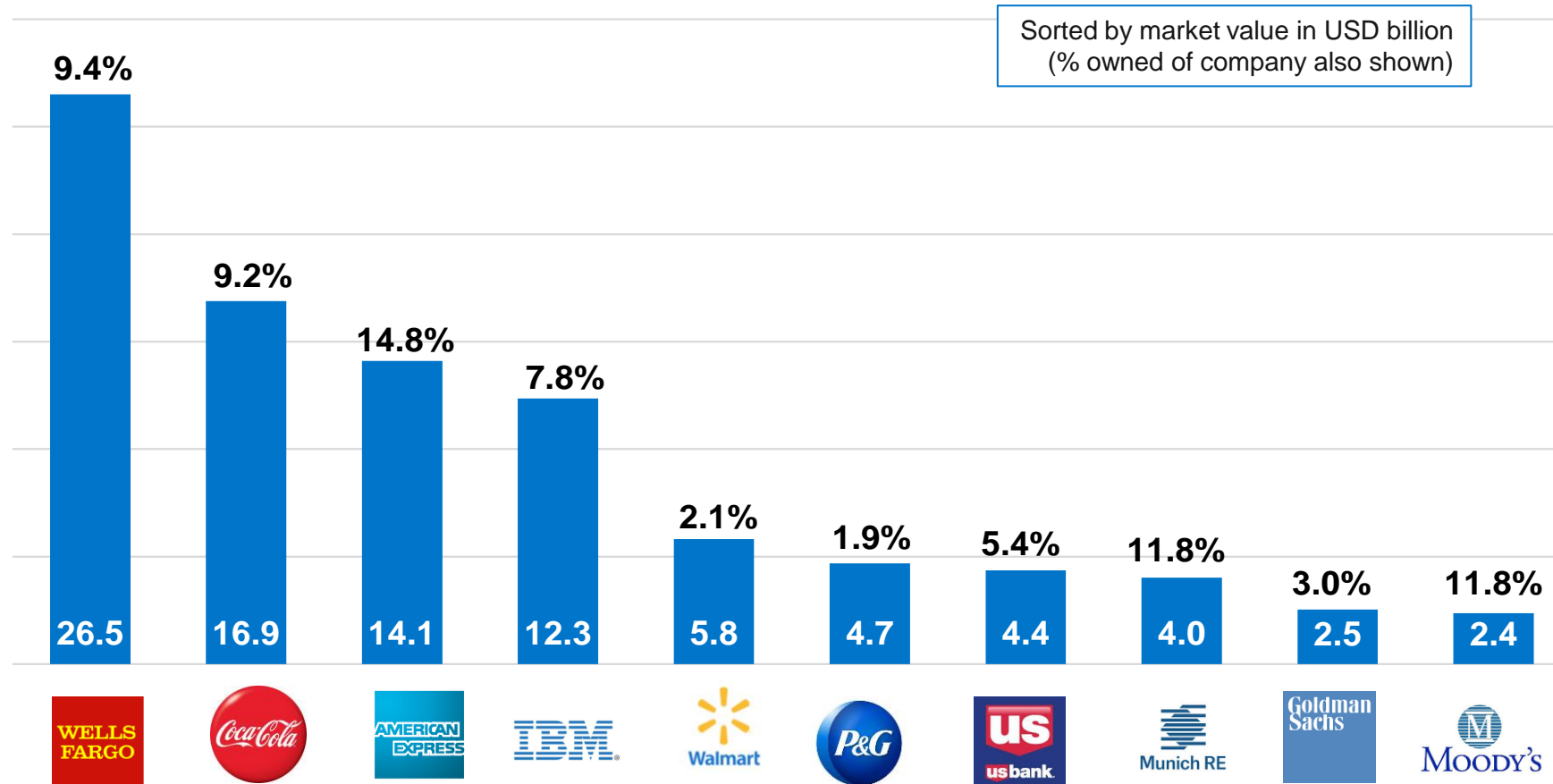
Berkshire Hathaway – Dec 2016

In: Apple, Delta Airlines !!.

Out: Walmart, Munich Re;

Increase: US Bancorp. GS;

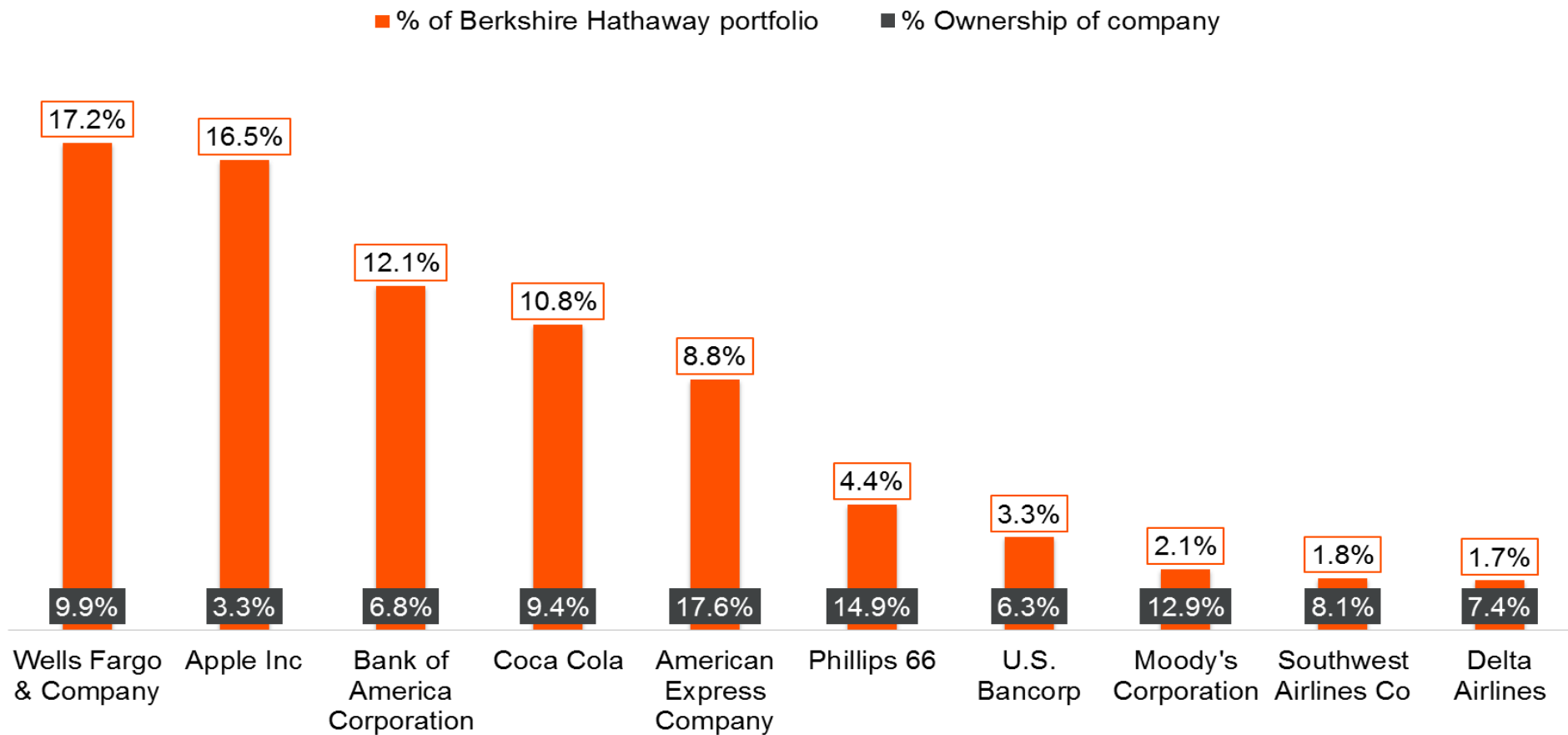
Reduce: IBM, Moody's



Berkshire Hathaway

Top 10 holdings Dec 2017

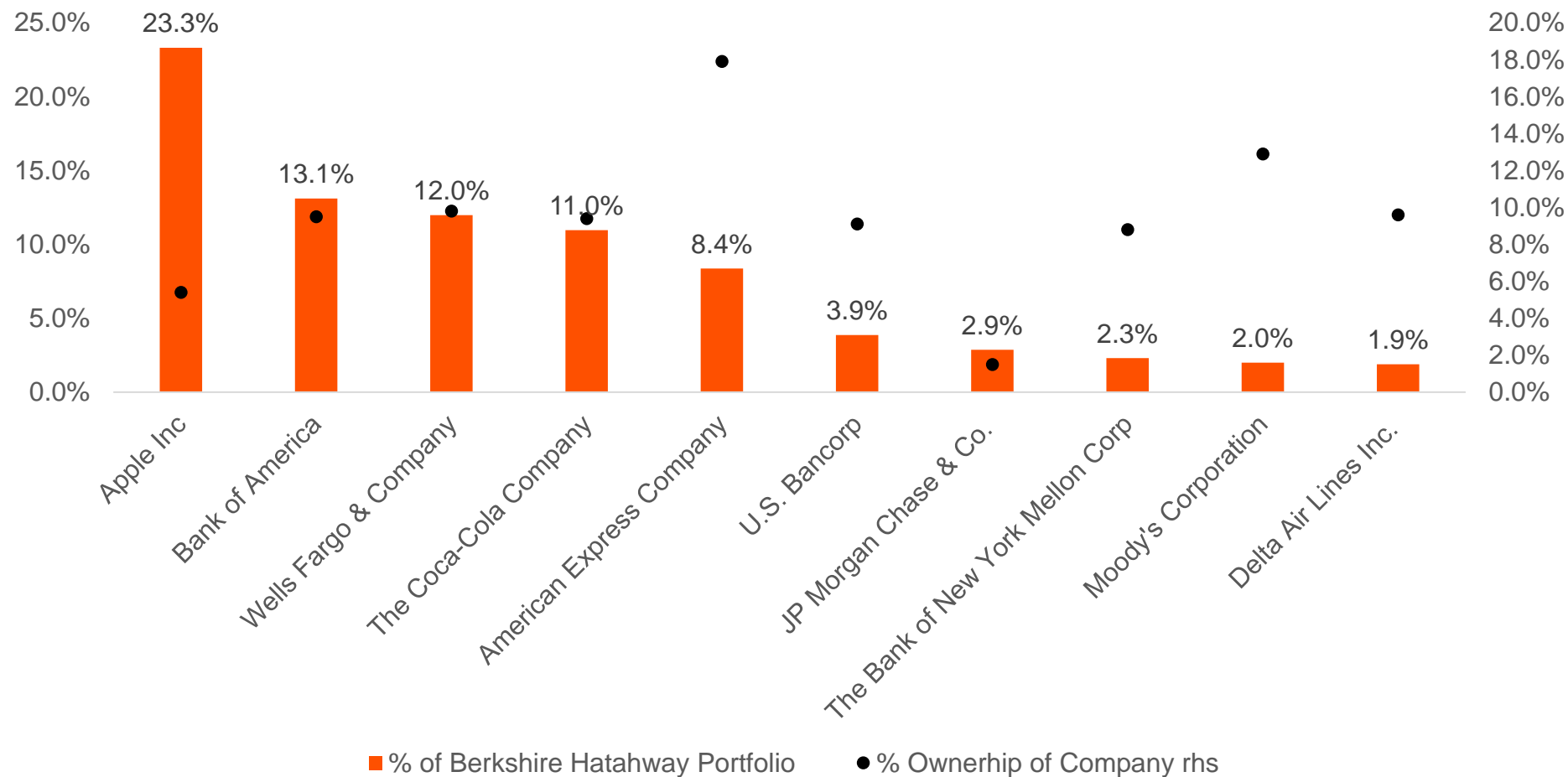
Sorted by market value in USD billion



Berkshire Hathaway

Top 10 holdings Dec 2018

Sorted by market value in USD billion



Stock Portfolio 31 December 2022

Market Value = \$299bn

of holdings = 49

Top 10 = ~93% of total portfolio value

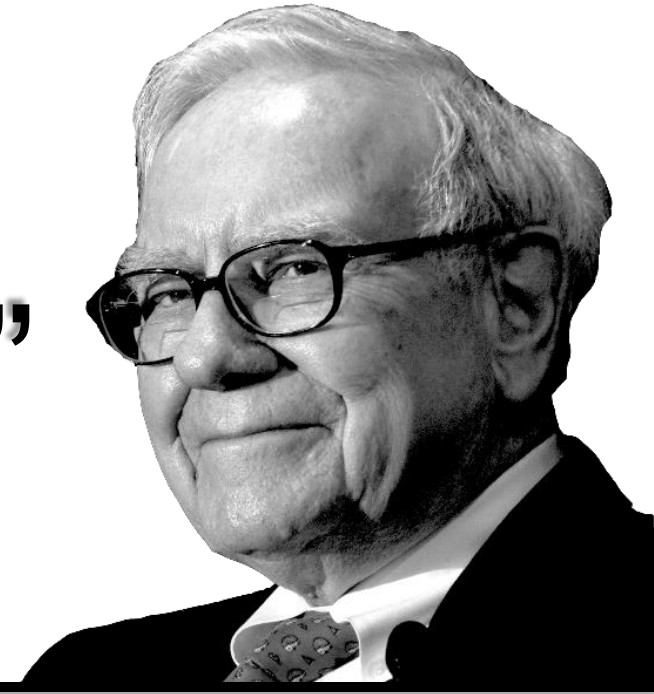
Company	Ticker	Market value as of 31 December, 2022	Number of shares	% of total portfolio
APPLE INC (COM)	AAPL	116,305,042,000	895,136,175	38.90%
BANK OF AMERICA CORP (COM)	BAC	33,454,531,000	1,010,100,606	11.19%
CHEVRON CORP (COM)	CVX	29,252,523,000	162,975,771	9.78%
COCA COLA CO (COM)	KO	25,444,000,000	400,000,000	8.51%
AMERICAN EXPRESS CO (COM)	AXP	22,400,481,000	151,610,700	7.49%
KRAFT HEINZ CO (COM)	KHC	13,256,593,000	325,634,818	4.43%
OCCIDENTAL PETROLEUM (COM)	OXY	12,242,210,000	194,351,650	4.09%
MOODYS CORP (COM)	MCO	6,873,494,000	24,669,778	2.30%
ACTIVISION BLIZZARD INC (COM)	ATVI	4,035,493,000	52,717,075	1.35%
HP INC. (COM)	HPQ	2,807,271,000	104,476,035	0.94%

BERKSHIRE **H**ATHAWAY INC.

- “ Your goal as an investor should simply be to purchase
- at a rational price,
 - a part interest, in an easily understandable business
 - whose earnings are virtually certain to be materially higher five, ten and 20 years from now. ”

Warren Buffett

Chairman and CEO of Berkshire Hathaway



Berkshire Hathaway philosophy

Don't think short-term

“You can be **quite sure** that over the next 10 years **there will be good and bad years.**”

“I don't have the faintest idea what business or stock markets are going to do in the next year or two...”



Source: Buffett Partnership Letters, 1959 – 1968)

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Getting the odds in your favour when investing (Balance of probabilities)

- Think Long-term
- Buy companies – not shares
- Buy as if market will be closed for 5 years...
- Stay within circle of competence
- **Buy companies where you have a high probability of predicting the future (Coke, Gillette, Nebraska Furniture Mart, Apple):**
- Defendable Moat (*Berkshires linings vs Coke*)
- Low capital needs, cash generative See's Candy..
- Avoid industries with risk of government interference
- Don't be afraid to sit on cash, but swing for the fences when you see an easy ball
American Express , Coke 1985 (batting matrix)
- Diversify - Don't diworsify
- Control emotions, ignore the crowd

- The industry invests in uncertainty – so a bird in the hand is worth two in the bush
 - There is too much to know, and a lot is hidden
 - Forecasting future economic or business cycles is a waste of time
 - A forecast gives more insight into the forecaster than the future
 - So how increase certainty?
 - Invest in businesses with a moat
 - That generate cash rather than need capital
 - Don't need turnaround
- The industry is filled with players whose interests are not aligned with yours....ignore them

Don't invest in turnarounds...

- When good management battle a bad industry, the industry normally wins...
- Munger: If you want to ensure yourself a lifetime of misery be sure to marry some-one with the intention of changing their behaviour
- Hostile bids: Sometimes necessary... but at BH we go where we are welcome

Loyalty, simplicity and belief about not interfering has led to mistakes

- Genre 1998 - bought from Swiss Re
- Flight Simulator and Executive Jet (1998)
- Salomons
- Irish Banks in 2008
- IBM

Dated principles or not?

The Power of Compounding			
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Can Berkshire Hathaway continue to outperform?

- Law of large numbers counts against it
- Changes made to portfolio have a much smaller impact
 - Yet recent purchases like Apple, Chevron and Occidental prove that he can do it
- But the superior his companies he has selected and the investment philosophy should continue to outperform
- What about his death? The impact will take time

Berkshire Total Return vs Global Indices – the problem of large numbers

Berkshire Hathaway Inc. Class B

312.62 0.00 0.00% 01:00:00 VWAP:

Daily

High: 982.43 Low: 74.86 Chg: 743.99%

